

Message Text

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ACTION EA-09

INFO OCT-01 IO-14 ISO-00 SP-02 USIA-15 AID-05 EB-07
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
L-03 H-02 PA-02 PRS-01 CIAE-00 COME-00 FRB-01
INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 AGR-10
/122 W

-----101807Z 018558 /53

R 100829Z JUN 77

FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 4409
INFO AMEMBASSY TOKYO
AMEMBASSY TAIPEI
AMCONSUL HONG KONG
USMISSION GENEVA

UNCLAS SECTION 1 OF 2 SEOUL 4820

GENEVA FOR USMTN AND USSCC

E.O. 11652: N/A

TAGS: ETRD, EFIN, MTN, GATT, KS

SUBJECT: KOREAN ECONOMY CONTINUES ON STEADY COURSE

REF: SEOUL 3991

SUMMARY: KOREA'S ECONOMY CONTINUES TO DEMONSTRATE STEADY GROWTH WITH THE EXTERNAL SECTOR REMAINING IN THE FOREFRONT. FINANCIAL PROBLEMS CREATED BY A LARGE INFLOW OF FOREIGN EXCHANGE AND GROWING CRITICISMS OF THE VALUE ADDED TAX (VAT) SCHEDULED FOR JULY ONE ARE, HOWEVER, GIVING THE GOVERNMENT HEADACHES. END SUMMARY

1. AS INDICATED BY THE GOVERNMENT'S MONTHLY ECONOMIC WARNING INDICATOR, WHICH HAS REMAINED AT THE 1.4 LEVEL SINCE FEBRUARY, THE KOREAN ECONOMY REMAINS ON A STEADY COURSE WITH THE PLUSES AND MINUSES IN BALANCE. DATA RECENTLY RELEASED SHOWS THAT IN UNCLASSIFIED

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APRIL INDUSTRIAL PRODUCTION ROSE 2.4 PERCENT (3.4 PERCENT SEASONALLY ADJUSTED) FROM MARCH LEVELS, ITS BEST PERFORMANCE THIS YEAR. FOR THE FIRST FOUR MONTHS THE INDEX IS UP 13.1 PERCENT OVER THE SAME PERIOD IN 1976. THIS COMPARES TO A 36.0 PERCENT INCREASE IN THE PRODUCTION INDEX DURING THE JANUARY-APRIL PERIOD OF 1976. THE INVENTORY INDEX FOR APRIL ROSE BY 2.6 PERCENT. WHILE GOOD, THE INDUSTRIAL SECTOR REMAINS LESS

THAN BOUYANT; THE FEDERATION OF KOREAN INDUSTRIES, HOWEVER, HAS FORECAST A SHARP RISE IN PRODUCTION AND BUSINESS DEMAND FOR JUNE WITH AUTOMOBILE AND CONSTRUCTION ACTIVITY ENJOYING UPTURNS.

2. THE FOREIGN SECTOR CONTINUES STRONG. DURING MAY COMMODITY EXPORTS AMOUNTED TO \$792 MILLION (\$726 MILLION SEASONALLY ADJUSTED) BRINGING THE JANUARY-MAY TOTAL TO \$3,568 MILLION, A 35.8 PERCENT GAIN OVER THE CORRESPONDING PERIOD OF LAST YEAR. THIS AMOUNTS TO 36 PERCENT OF THE 1977 EXPORT TARGET. ON THE OTHER HAND, ARRIVALS OF L/C'S DURING THE JANUARY-MAY PERIOD AMOUNTED TO \$3,877 MILLION, A 23 PERCENT GAIN. AT \$704 MILLION, \$723 MILLION SEASONALLY ADJUSTED, MAY FIGURES SHOW A CONTINUING DOWNTREND AND THE RATE OF MERCHANDISE EXPORTS SHOULD SHOW SOME DECELERATION BY MID-YEAR. NEVERTHELESS, THE \$10 BILLION EXPORT TARGET MAY STILL BE ACHIEVED, ALTHOUGH BY A SLIGHT MARGIN.

3. THERE ARE INDICATIONS THAT IMPORTS SHOULD INCREASE OVER THE COMING MONTHS. FOREIGN EXCHANGE IMPORTS OVER THE PAST FIVE MONTHS WERE UP BY 20 PERCENT TO \$3,103 MILLION. IMPORT LICENSES HAVE INCREASED AT A FASTER PACE (36 PERCENT FOR JANUARY THROUGH MAY). THE PAST MONTH SAW SIGNIFICANT INCREASES IN BOTH FOREIGN EXCHANGE IMPORTS--\$713 MILLION OR \$640 MILLION SEASONALLY ADJUSTED--AND IN IMPORT LICENSES (\$823 MILLION OR \$865 MILLION SEASONALLY ADJUSTED.)

4. KOREA'S FOREIGN EXCHANGE HOLDINGS AT THE END OF MAY REACHED A NEW ALL TIME HIGH OF \$3,515 MILLION, ALMOST DOUBLE THE AMOUNT UNCLASSIFIED

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HELD AT THE END OF MAY 1976. THEY RESULTED FROM THE STRONG FOREIGN EXCHANGE EXPORT PERFORMANCE PACED BY AN EXCEPTIONALLY IMPRESSIVE SHOWING IN SERVICE RECEIPTS WHICH ARE 110 PERCENT OVER THE CORRESPONDING PERIOD OF 1976 AT \$1.09 BILLION. THE PROJECTED INCREASES IN IMPORTS IN THE SECOND HALF SHOULD CUT INTO THE RAPID GROWTH OF FOREIGN EXCHANGE BUT EXPECTATIONS ARE THAT RESERVES SHOULD HIT THE \$4 BILLION LEVEL BEFORE THE YEAR'S END. AS A RESULT OF THE STRONG FIRST HALF PERFORMANCE, THE OVERALL BALANCE OF PAYMENTS SHOULD SHOW A MUCH SMALLER CURRENT ACCOUNT DEFICIT THAN THE \$484 MILLION ORIGINALLY PROJECTED. A SLIGHT SURPLUS EVEN REMAINS WITHIN THE REALM OF POSSIBILITY.

5. PACED BY RISES IN FOOD AND CLOTHING COSTS, CONSUMER PRICES WERE UP ONE PERCENT IN MAY OR 5.7 PERCENT FOR THE FIRST FIVE MONTHS. FOR THE 12-MONTH PERIOD FROM MAY 1976 CONSUMER PRICES HAVE RISEN 10.1 PERCENT. WHOLESALE PRICES ROSE 0.6 PERCENT IN MAY OR 4.9 PERCENT SINCE DECEMBER. ON A SEASONALLY ADJUSTED BASIS THE MAY PRICE PERFORMANCE WAS

LESS PROMISING WITH CONSUMER PRICES UP 1.4 PERCENT AND
WHOLESALE PRICES ONE PERCENT. THE PRICE FRONT REMAINS A
CRITICAL AREA AND ADDITIONAL PROBLEMS MAY ARISE WITH THE
INTRODUCTION OF VAT 1 JULY.

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UNCLAS SECTION 2 OF 2 SEOUL 4820

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6. CONTROL OF THE MONEY SUPPLY IS CREATING DIFFICULTIES FOR
THE ROKG. WITH RIGID CONTROLS OVER EXPANSION OF DOMESTIC
CREDIT AND GOVERNMENT FINANCES, THE OVERALL MONEY SUPPLY
TENDE TO STABILIZE IN MAY DESPITE CONTINUED RISES IN
FOREIGN EXCHANGES; THE LATTER IS UP 68 PERCENT FOR THE FIRST
FIVE MONTHS. HOWEVER, TIGHT MONEY MAY BE ACTING AS A DRAG ON
THE DOMESTIC ECONOMY. CONSTRUCTION REMAINS IN THE DOLDRUMS
WITH ALL SEGMENTS DOWN 28 PERCENT FOR THE FIRST FOUR MONTHS
OF 1977 COMPARED TO A SIMILAR PERIOD LAST YEAR. INDUSTRIAL
CONSTRUCTION HAS DECLINED 19.5 PERCENT FOR THIS PERIOD AND
INCICATIONS ARE THAT OTHER INVESTMENT ACTIVITY REMAINS QUIESCENT.
ON THE OTHER HAND, IF THE GOVERNMENT LOOSENS CONTROL OVER PRIVATE
DOMESTIC CREDIT, UP ONLY 8.2 PERCENT FOR THE FIRST FIVE
MONTHS, GROWTH IN THE MONEY SUPPLY WILL EASILY SURPASS THE
TARGETED 23-25 PERCENT.

7. AS THE JULY 1 DEADLINE APPROACHES, BOTH BUSINESS CIRCLES
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AND OPPOSITION POLITICAL ELEMENTS ARE CALLING FOR A DEFERENT OF VAT, BUT THE GOVERNMENT HAS ANNOUNCED ITS INTENTION TO PROCEED. CRITICS CLAIM VAT WILL RAISE WHOLESALE PRICES BY A MINIMUM OF 4-5 PERCENT AND RETAIL PRICES BY 7-8 PERCENT. THE ECONOMIC PLANNING BOARD IS REPORTEDLY AT WORK ON A STABILIZATION PROGRAM TO CURB PRICE INCREASES AS A RESULT OF THE EXPANDING MONEY SUPPLY AND IMPOSITION OF VAT. AN AMENDMENT TO THE IMPLEMENTATION DECREES EXPANDING THE NUMBER OF ITEMS, PRINCIPALLY FOOD GRAINS AND OTHER DAILY NECESSITIES, TO BE EXEMPT FROM VAT IS UNDER PREPARATION IN THE MINISTRY OF FINANCE. (THE DRAFT INCLUDES EXEMPTION OF GOODS AND SERVICES FOR FOREIGN DIPLOMATS STATIONED IN KOREA.)
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
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Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
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Reference: 77 SEOUL 3991
Retention: 0
Review Action: RELEASED, APPROVED
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Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2193349
Secure: OPEN
Status: NATIVE
Subject: KOREAN ECONOMY CONTINUES ON STEADY COURSE
TAGS: ETRD, EFIN, ECON, KS, GATT, MTN
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/7a15667f-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009